

Remarks by Senator Chuck Grassley
2004 IRS Research Conference
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Thank you, Commissioner Everson, for your kind words and thank you Mark Mazur for extending the invitation to speak this morning.

Good morning to all of you in the audience. I understand that we have a mix of folks who are interested in both tax administration and research here. I believe some of you have traveled from abroad—from the UK, from New Zealand, and from Canada—and I extend a special welcome to you.

I am pleased to have the opportunity to speak to people who have the potential to be of great assistance to legislators like me and decision-makers within the world of tax administration. Let me share with you my particular concerns with respect to the IRS.

First—and this is no secret—I want to be assured that IRS is balancing its enforcement and assistance responsibilities while it is also modernizing its antiquated computer system. In other words, I believe the agency must be able to walk and chew gum at the same time. And I think that Commissioner Everson would agree that this is not too much to ask.

Further, I want to know that the IRS is working smart and I want to know about any snafus in the tax code – where it is not having its intended impact or is being abused. And this is where you important people could be of great help. When I look out into this room, I see 150 researchers from within IRS and another 100 from outside who could help the Congress and the IRS by doing just one thing [PAUSE]: focusing on research that is useful in the real world immediately.

Let me share with you some research that I have seen recently that I found particularly useful and:

- 1) GAO's work on charitable donations of cars
- 2) The Washington Post's series on the charitable donation of land
- 3) The Boston Globe's series on private foundations.

And here's a little more detail on each.

With respect to GAO's work on charitable donations of cars: Cathy Berrick and her staff found that in tax year 2000, taxpayers reduced their tax liability by some \$654 million.

Of great concern, the report highlights that there is a significant problem in inflation of valuation by taxpayers. For example, a taxpayer who claimed a \$2,400 deduction on a vehicle that sold at auction for \$325. The charity netted \$31.50. Yes, thirty one dollars and fifty cents. The rest was taken by the middlemen.

As a direct result of this GAO investigation, we have in the JOBS bill, a \$2 billion dollar revenue raiser to address this problem.

As another example, the Washington Post series regarding donations of land and easements and particularly the Nature Conservancy. The reporting in the Post highlighted a significant amount of tax mischief in the area of conservation donations as well as inappropriate activities within a major charity. Again, this has sparked a Finance Committee investigation that is leading to significant legislative reforms in the area of conservation donations.

Finally, the Boston Globe's series on private foundations: The Globe's Spotlight Team of reporters took advantage of publicly available Form 990 information. Using that information, the investigators were able to expose patterns of spending by non-profits that go way beyond what any reasonable person would think was appropriate.

The abuses the Boston Globe Team exposed include gold-plated retirement packages, excessive salaries, personal loans, and foundation-owned transoceanic jets and luxury automobiles.

I would contrast that to the IRS' Statistics of Income review of private foundations that provides a view from 30,000 feet and gives no sense of outliers and potential problem areas. It is of extremely limited use.

And again, the Boston Globe series has sparked a detailed review by the Finance Committee of charitable governance – particularly private foundations.

Let me conclude talking about specific research by touching on an IRS research project—the National Research Program—that I think shows great merit. As former Commissioner Rossotti said, the National Research Program “will help all taxpayers by giving the agency timely, accurate information about tax compliance. [The] information will allow the IRS to replace outdated audit formulas and develop compliance efforts targeted at the tax returns most likely to have errors rather than those from honest taxpayers.”

I fought for the National Research Program. I also worked with Senator Baucus to have GAO review this program so the wheels didn't fall off because of concerns about taxpayer rights being abused. When some folks in operations got weak in the knees, I sent over knee braces. I am very interested in seeing the results of the National Research Program (NRP).

Those results will allow the IRS to work smarter to reduce the no-change audit rate. When that happens, more people who SHOULD be getting audited WILL be getting audited and fewer people who shouldn't be audited will be subject to an unnecessary audit.

This is critical – the IRS, like the entire government, has limited resources and it must do a better job with those limited resources. Research that assists the IRS to target its resources in an effective manner is absolutely critical. I think it is important that the NRP continue on to look at pass-through entities and trusts where so much is unknown.

Now the common element among these four pieces of research I just discussed is that their results show clearly something flawed either in the tax code or in tax administration. And, more importantly, these studies shine a spotlight on something that it is possible to fix right now either through change in law or better administration.

The four pieces of research I mentioned come from a variety of sources, some decidedly non-academic. In my opinion, research does not need to emanate from the ivory tower to be useful.

Research that shows what is practical and possible to change immediately is useful to me. I suggest that such research is useful to other legislators and, I hope, to IRS executives.

Shifting gears slightly here, I have one more broad area of concern where this room full of researchers may be of great assistance. As chairman of the Senate's tax-writing committee, I am involved in many changes, additions and subtractions of the tax code. While people may talk about the merits, the reality is the tax code is being used to promote specific policies, be it wind energy, or education.

We spend some amount of time here in Washington reviewing the outcomes of spending programs but there seems to be an enormous deficit when it comes to serious review of the outcomes of specific code provisions. I am a great believer in oversight and as Chairman of the Finance Committee I believe it is my duty to look harder at specific code provisions.

Questions that need to be answers are, for example, does the tax code achieve the desired outcome? A study that tells me the average number of Schedules K-1 attached to a return or the average size of a Hope credit is not enough. I need context and case studies. I need to be able to see whether policy goals are being met. I need to be able to see that the provisions of the tax code are being used appropriately and are not being abused.

Also with respect to the tax code, I would like to hear about the unknown problems in the code. While I could fill a barn with studies about AMT and how to fix it, there are whole sections of the code that are lost orphans in terms of analysis.

I close with a challenge for you. I challenge you to produce research that passes the ‘so what’ test—that is, research that can help effect change immediately. When starting a project, imagine presenting the results to an IRS executive or a legislator. Ask yourself whether he or she could DO something with the results, whether he or she could make something happen.

I thank you for the opportunity to speak with you this morning and hope that you have a fruitful conference.